

Message Text

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PAGE 01 MANILA 19215 061016Z
ACTION EA-12

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C O N F I D E N T I A L MANILA 19215

E.O. 11652: GDS
TAGS: EFIN, SHUM, ENRG, RP
SUBJECT: REQUEST FOR INFORMATION ON IFI LOANS TO BE CONSIDERED BY
THE INTERAGENCY GROUP ON HUMAN RIGHTS AND FOREIGN RELATIONS

REF: STATE 287111

1. BEGIN SUMMARY. THE \$29.0 MILLION ADB LOAN TO NATIONAL POWER CORPORATION (NPC) TO FINANCE THE 55MW AGUS V HYDROPOWER PLANT AND ASSOCIATED FACILITIES DOES NOT REPEAT NOT APPEAR TO MEET BASIC HUMAN NEEDS (BHN) CRITERIA AS DEFINED BY PRECEDENTS INDICATED IN STATE 286263. AS FOR THE \$8 MILLION IBRD TREE FARMING/REFORESTATION PROJECT, ABOUT 60 PERCENT OF THIS LOAN WILL GO TO DEVELOPMENT BANK OF THE PHILIPPINES FOR RE-LENDING TO SMALL FARMERS IN POOR AREAS TO PLANT TREES AS CASH CROP AND EROSION CONTROL. THUS WE BELIEVE THIS LOAN MEETS BHN CRITERIA. END SUMMARY.

2. AGUS V HYDROPOWER PROJECT.
AGUS V IS AN INTEGRAL PART OF THE LONG-RANGE GOP POWER DEVELOPMENT PROGRAM FOR MINDANAO WHICH SERVES RURAL ELECTRIFICATION AND INDUSTRIALIZATION PROJECTS OF THE GOP IN THE AREA. THREE RURAL ELECTRIFICATION COOPERATIVES PRESENTLY TAKE THEIR POWER FROM THE NORTHERN MINDANAO POWER TRANSMISSION GRID FED BY POWER FROM THE MARIA CRISTINA AND AGUS VI GENERATING PLANTS. THE PROPOSED AGUS PLANT WILL ADD 55MW OF CAPACITY TO THAT GRID. MR.
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JUAN CLAVERIA, CHIEF, GENERATION PLANNING SECTION OF THE NPC, HAS ADVISED US THAT THE INCREMENTAL POWER FROM AGUS V WILL FIRST BE ALLOCATED TO MEET THE UNSATISFIED DEMAND OF THE INDUSTRIAL COMPLEXES IN THE ILIGAN AND CAGAYAN DE ORO AREAS. AS THAT DEMAND IS MET, AN INCREASING SHARE OF THE AGUS AND PALANGUI HYDROPOWER DEVELOPMENT PROJECTS TO FOLLOW WILL BE ALLOCATED TO THE COOPERATIVES.

3. UNDER THE PROVISIONS OF PARA 4B OF STATE 286263, THIS PROJECT WOULD NOT MEET THE BHN CRITERIA OF THE CHRISTOPHER COMMITTEE. HOWEVER, THE AGUS POWER GENERATING SYSTEM AS A WHOLE PROBABLY MEETS THE BHN CRITERIA OF PARA 3I TO THE EXTENT THAT IT FEEDS POWER TO THE RURAL ELECTRIFICATION COOPERATIVES FINANCED BY USAID. NEVERTHELES, WE NOTE THAT THE US STATEMENT AT THE IBRD CONSULTATIVE GROUP MEETING IN TOKYO LAST WEEK (TOKYO 18584) SAYS IN PART: "WE HAVE SOME CONCERN THAT THE PROPOSED HEAVY INVESTMENT EXPENDITURES OVER THE NEXT FIVE YEARS FOR LONGER TERM PROGRAMS IN...POWER...MAY CONSTITUTE A VERY SIZEABLE DRAIN ON TOTAL RESOURCES AT THE EXPENSE OF SOCIAL SECTOR PROGRAMS DESIGNED TO AMELIORATE THE SITUATION OF THE POOR MAJORITY..."

4. TREE FARMING/REFORESTATION PROJECT.

THE PROJECT IS A JOINT VENTURE BETWEEN THE DEVELOPMENT BANK OF THE PHILIPPINES (DBP) AND THE BUREAU OF FOREST DEVELOPMENT (BFD) OF THE DEPARTMENT OF NATURAL RESOURCES. IT COMPLEMENTS A PLANNED USAID-SUPPORTED AGRO-FORESTATION PROJECT. OVER \$4 MILLION OF THE LOAN WILL GO TO THE DBP FOR RE-LENDING TO SMALL-HOLDER FARMERS TO PLANT IPIL-IPIL TREES. THE PROJECT HAS A DUAL PURPOSE OF STIMULATING REFORESTATION OF DENuded AREAS, AND CREATING A CASH CROP FOR RURAL PEOPLE. THE PROJECT WILL IMPACT ON THREE VERY POOR FARMING AREAS: ILOCOS FARMERS WILL PLANT FOR FIREWOOD, CONFIDENTIAL

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CEBU FARMERS FOR FIREWOOD AND LEAFMEAL FOR LIVESTOCK FEED, AND MINDANAO FARMERS FOR CHARCOAL PRODUCTION. LOANS WILL GO TO LANDOWNERS OF 25 HECTARES OR LESS. LARGE LANDHOLDERS MAY GET LOANS ON A CASE-BY-CASE BASIS DEPENDING ON NEED FOR RE-FORESTATION IN AREA TO FIGHT EROSION WHICH AFFECTS ADVERSELY ALL FARMERS.

5. ABOUT \$400 - \$600 THOUSAND OF THE IBRD LOAN WILL GO TO THE BUREAU OF PLANT INDUSTRY AND PHILIPPINE COUNCIL FOR AGRICULTURE AND RESOURCE RESEARCH FOR RESEARCH AND DEVELOPMENT OF FOREST NURSERIES TO SERVE THE FARMERS GETTING THE TREE FARM LOANS. THE THIRD PORTION OF THE LOAN, JUST OVER \$3MILLION WILL GO TO THE BFD TO ESTABLISH A LONG-FIBER TREE PLANTATION, PROBABLY CARIBBEAN PINE, ON GOVERNMENT-OWNED LANDS IN NORTHERN LUZON. THIS IS A LONG-TERM (10-15 YEARS) DEMONSTRATION PROJECT TO PROVE THE VIABILITY OF LONG-FIBER SPECIES IN THE PHILIPPINES. IF VIABLE, THE PHILIPPINES WILL BE ABLE TO SAVE FOREIGN EXCHANGE BY REPLACING CURRENT IMPORTS OF LONG-FIBER PULP.

6. HUMAN RIGHTS CONSIDERATIONS.

ATTENTION HAS FOCUSED ON THE HUMAN RIGHTS SITUATION IN THE

PHILIPPINES RECENTLY BECAUSE OF THE SENTENCING OF EX-SENATOR
AQUINO NOVEMBER 25. ON NOVEMBER 29, THE US DIRECTOR
ABSTAINED ON AN ADB LOAN TO THE GOP'S DEVELOPMENT BANK
WHICH WOULD AUGMENT ITS FOREIGN EXCHANGE RESOURCES AND
ENABLE IT TO MAKE ADDITIONAL LOANS TO MANUFACTURING AND
MINING INDUSTRIES. WE INFORMED THE GOP THAT WE HAD ABSTAINED
BECAUSE OF THE HUMAN RIGHTS CLIMATE IN THE PHILIPPINES.
THE SAME DAY PRESIDENT MARCOS ORDERED THE REOPENING OF THE
AQUINO CASE. HOWEVER, THE HUMAN RIGHTS CLIMATE REMAINS
BASICALLY UNCHANGED.
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